The Investment Institute
by UniCredit

Coffee Break

Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

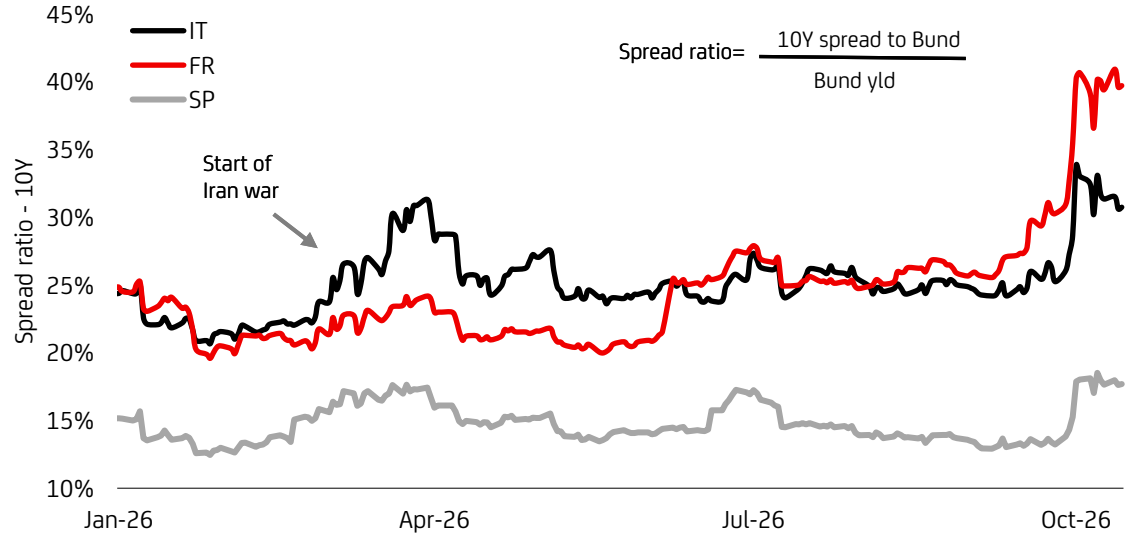
OAT spread widening goes beyond higher Bund yields

15 October 2026

Higher Bund yields are putting pressure on EGBs but not all spreads are widening for the same reason nor by the same magnitude. The divergence between OATs and BTPs suggests that investors have become more selective, placing more weight on domestic factors, a stance that is likely to persist.

ITALY AND FRANCE CREDIT SPREAD ADJUSTED FOR HIGHER BUND YIELDS

SPREAD RATIO FOR ITALY, FRANCE AND SPAIN



Source: Bloomberg, The Investment Institute by UniCredit

THE CONTEXT

EGB spreads have come under pressure in recent weeks, partly reflecting the rise in risk-free rates. However, the adjustment has been far from uniform across sovereign issuers. French government bonds have led the widening, with the 10Y OAT-Bund spread reaching around 140bp, a level comparable to those seen during the euro-area sovereign debt crisis of 2011-12 and only about 50bp below its all-time high of 190bp. Italian BTPs have also widened, moving back above 100bp, but this remains low by historical standards and below levels prevailing just a few years ago. The divergence suggests that investors are becoming more selective and are placing greater emphasis on country-specific fiscal and political developments rather than treating EGBs as a homogeneous asset class.



THE DATA

Our chart shows the spread ratio of 10Y BTPs, OATs and SPGBs since the start of the year. The spread ratio is defined as the yield spread versus Bunds divided by the bond yield. Looking at spreads this way helps account for changes in the overall rate environment. A given credit spread has a very different value depending on the level of risk-free rates: earning 50bp of additional yield is far more meaningful when Bund yields are at 1% than when they are at 5%. The spread ratio therefore provides a cleaner measure of country-specific risk adjusted for the broader level of rates.

The chart shows that the spread ratio of Italy rose when the war in Iran started, peaking at around 30%. This reflected investor concerns regarding Italy's dependence on energy prices. After this episode, the spread ratio fell back to round 25%. After its recent rise, it is roughly in line with the peak observed in March.

OATs, on the other hand, held up well in the early stages of the conflict but have come under significant pressure recently. The spread ratio is now just over 40%, well above that of Italy. It is also high compared to history.

For comparison, the chart also includes Spanish government bonds. Spain's spread ratio is lower in absolute terms, consistent with its stronger credit profile, and remained unfazed by recent calls for early elections. Furthermore, its trajectory mirrors that of Italy. This suggests that BTPs and SPGBs have largely been driven by common factors, whereas the French market has followed a distinct path.



OUR VIEW

Considering that Bund yields have risen by 80bp since the start of war in Iran, it is not surprising that sovereign credit spreads have widened. The relative stability of the spread ratio of BTPs suggests that the move observed so far has been related mainly to the broader market conditions, reflecting investor concerns on the country's fundamentals to a lesser extent. To keep the spread ratio stable at 25%, the BTP-Bund spread should be 85bp, roughly 20bp below current market levels.

The picture is different for France, where the increase in the spread ratio points to country-specific issues being at play and a deterioration in market perception. OATs should be trading with a spread to Bunds 50bp below the current market level to have a spread ratio in line with early September levels.

Investor concerns stem from France's need to reduce its fiscal deficit in order to slow, and ultimately stabilise, the rise in public debt. The required adjustment is politically challenging. Meaningful fiscal consolidation is unlikely before the presidential election, which is still six months away, and may remain difficult even thereafter. Another source of vulnerability is the high share of foreign ownership of French government debt, as foreign investors tend to react quickly to adverse news. Although the ECB's Transmission Protection Instrument (TPI) should limit the risk of extreme spread widening, the intervention threshold is likely to be well above current market levels. As a result, investors have little incentive to increase exposure to OATs until spread widening becomes large enough to trigger a credible policy response at home or a signal from the ECB. In other words, things may have to get worse before they get better.

The implications extend beyond France. Until the outbreak of the Iran conflict, spread convergence had been a dominant theme in euro-area government bond markets, supported by stronger political cohesion, a more resilient eurozone architecture and increasingly synchronised economic cycles. This trend came to a halt when the conflict erupted, and recent developments have challenged this narrative even more. Marine Le Pen's proposal to reduce France's contribution to the EU budget is not a positive signal when it comes to political convergence. Lack of meaningful progress toward a common European safe asset also raises doubts. As investors place greater emphasis on country-specific fundamentals, spread differentiation is likely to persist, creating both risks and opportunities across EGB markets. For the time being, however, the balance of risk argues for caution toward French government bonds relative to their peers.

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
11:00	EZ	Industrial production (% mom)	Aug	-0.1	0.2	-0.1
14:30	US	Retail sales (% mom)	Sep	-	0.3	1.2
14:30	US	PPI ex. food & energy (% mom)	Sep	-	0.3	0.2

Source: Bloomberg, The Investment Institute by UniCredit

Author
Dr. Luca Cazzulani, Head of Strategy, FI Strategist (UniCredit, Milan), luca.cazzulani@unicredit.eu

Editors
Edoardo Campanella, Director and Editor-in-Chief of The Investment Institute (UniCredit, Milan)
edoardo.campanella@unicredit.eu
Francesco Maria Di Bella, FI Strategist (UniCredit, Milan), francescomaria.dibella@unicredit.eu

UniCredit S.p.A
The Investment Institute by UniCredit, Piazza Gae Aulenti, 4, I-20154 Milan
www.the-investment-institute.unicredit.eu

Legal Notices

Glossary

Terms used in the report are available on our website: Our glossary

Marketing Communication

This publication/video constitutes a marketing communication of UniCredit S.p.A., UniCredit Bank Austria AG, Schoellerbank AG and UniCredit Bank GmbH (hereinafter jointly referred to as the "UniCredit Group") is addressed to the general public and is provided free of charge for information only. It does not constitute investment recommendation or consultancy activity by the UniCredit Group or, even less, an offer to the public of any kind nor an invitation to buy or sell securities. The information contained herein does not constitute an investment research or financial analysis since, in addition to the lack of content, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

UniCredit Group, including all its group companies may have a specific interest in relation to the issuers, financial instruments or transactions detailed herein. Relevant disclosures of interests and positions held by UniCredit Group are available at: Conflicts of interest Any estimates and/or assessments contained in this publication represent the independent opinion of the UniCredit Group and, like all the information contained therein, are given in good faith on the basis of the data available at the date of publication, taken from reliable sources, but having a purely indicative value and subject to change at any time after publication, on the completeness, correctness and truthfulness of which the UniCredit Group makes no guarantees and assumes no responsibility. Interested parties must therefore carry out their own investment assessments in a completely autonomous and independent manner, relying exclusively on their own considerations of the market conditions and the information available overall, also in line with their risk profile and economic situation. Investment involves risk. Before any transaction in financial instruments please refer to the relevant offering documents. It should also be noted that:

1. Information relating to the past performance of a financial instrument, index or investment service is not indicative of future results.
2. If the investment is denominated in a currency other than the investor's currency, the value of the investment can fluctuate strongly according to changes in exchange rates and have an undesirable effect on the profitability of the investment.
3. Investments that offer high returns can undergo significant price fluctuations following any downgrading of creditworthiness. In the event of bankruptcy of the issuer, the investor may lose the entire capital.
4. High volatility investments can be subject to sudden and significant decreases in value, being able to generate significant losses at the time of sale up to the entire capital invested.
5. In the presence of extraordinary events, it may be difficult for the investor to sell or liquidate certain investments or obtain reliable information on their value.
6. If the information refers to a specific tax treatment, it should be noted that the tax treatment depends on the individual situation of the customer and may be subject to change in the future.
7. If the information refers to future results, it should be noted that they do not constitute a reliable indicator of these results.
8. Diversification does not guarantee a profit or protect against a loss.

The UniCredit Group cannot in any way be held responsible for facts and/or damages that may arise to anyone from the use of this document, including, but not limited to, damages due to losses, lost earnings or unrealised savings. The contents of the publication – including data, news, information, images, graphics, drawings, brands, and domain names – are owned by the UniCredit Group unless otherwise indicated, covered by copyright and by the industrial property law. No license or right of use is granted and therefore it is not allowed to reproduce its contents, in whole or in part, on any medium, copy them, publish them and use them for commercial purposes without prior written authorisation from UniCredit Group unless if purposes of personal use only. E 25/1